

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**Telecommunications Division
Public Programs Branch ***

**RESOLUTION T-16585
October 10, 2001**

R E S O L U T I O N

RESOLUTION T-16585. REVISED FISCAL YEAR 2001-02 BUDGET FOR THE CALIFORNIA HIGH COST FUND-B TO COMPLY WITH THE REQUIREMENTS OF PUBLIC UTILITIES CODE SECTIONS 270 THROUGH 281.

SUMMARY

This resolution approves a revised Commission budget of \$972.872 million for FY 2001-02 for the CHCF-B program incorporating the CHCF-B program expense amount included in the adopted State Budget. Further, this resolution adopts a reduction in the CHCF-B surcharge rate from 2.60% to 1.47%, effective November 1, 2001 ¹ and to remain in effect until revised by the Commission.

In August 2001, the California Legislature and the Governor adopted the fiscal year (FY) 2001-02 budget for the State of California. The California State Budget, among other things, incorporated the program expense amount associated with the California High Cost Fund –B (CHCF-B) ² and four other public programs, including the expenses associated with the implementation of the requirements of Public Utilities (PU) Code Sections 270 through 281 (Chapter 1.5 to Part 1, Division 1 of the PU Code). These requirements are the results of implementing the provisions of Senate Bill (SB) 699, which became effective on January 1, 2000, as amended by SB 742 (signed by the Governor in August 2001), to transfer the CHCF-B and other program funds to the State Treasury beginning on October 1, 2001.

¹ For billings from July 1, 2001 through October 31, 2001, inclusive, the surcharge rate is 2.6%. For billings from November 1, 2001 and thereafter, the surcharge rate is 1.47%. The weighted surcharge rate for fiscal year 2001-02 is 2.0% based upon the 40 days lag surcharge remittance by carriers.

² Pursuant to PU Code Section 270(a), the fund name is the California High Cost-B Administrative Committee Fund.

BACKGROUND

1. CHCF-B Program

a) Decision 96-10-066

In Decision (D) 96-10-066, the Commission established the CHCF-B program to provide universal service subsidy support in the high cost areas of the service territories of Pacific Bell (Pacific), GTE California, Inc. (GTEC), ³ GTE Contel of California (GTE-Contel), Roseville Telephone Company (Roseville), Citizens Telecommunications Company of California (Citizens), and new carriers that become Carriers of Last Resort (COLR). Further, the CHCF-B program enables these carriers to reduce their rates for those services that implicitly subsidize residential service in high cost areas. The CHCF-B program is funded by an All End User Surcharge on intrastate billings. D.96-10-066 established a 2.87% surcharge rate that was intended to raise \$352.8 million per year to fund the CHCF-B program.

b) Decision 98-06-065

In D. 98-06-065, the Commission established the requirement for the CHCF-B Administrative Committee (AC) to file its proposed budget and adjustment to the surcharge level for the following calendar year for the CHCF-B program by October 1 of each year. However, Ordering Paragraph 24 of D.98-06-065 delayed this requirement until October 1, 1999. Nevertheless, the AC did file a 1999 budget on October 1, 1998 that was adopted by the Commission in Resolution T-16244, dated December 3, 1998. On September 30, 1999, the AC filed its CHCF-B program budget and surcharge level for the year 2000. The Commission adopted the CHCF-B 2000 budget and surcharge rate by Resolution T-16365, dated December 2, 1999.

c) Resolution T-16430

In Resolution T-16430, dated September 21, 2000, the Commission adopted the FY 2001-02 CHCF-B budget. In Resolution T-16430, the Commission approved the following: (a) a total CHCF-B program budget of \$482.767 million, (b) a surcharge rate of 2.60%, effective July 1, 2001 and (c) projected fund balance of

³ At the issuance of D.96-10-066, GTE California and GTE Contel (Contel of California) operated as separate companies and were designated to receive subsidy for providing services in high cost areas. Subsequently, GTE California and GTE Contel merged its operations into GTE California. On July 1, 2000, GTE Corporation changed its corporate name to Verizon Communications Corporation and later, GTE California changed to Verizon California..

\$186.891 million. (See Appendix A for other details.) Expense estimates relating to the implementation of P.U. Code Sections 270, et. al, known at that time were also adopted. Resolution T-16430 did not consider separately the carry-over claims as the Commission in prior annual CHCF-B budgets previously approved these expenses.

d) CHCF-B Program Current Status

The CHCF-B program was established in D.96-10-066 to provide a universal service subsidy in high cost areas of the service territories of Pacific, GTEC, GTE-Contel, Roseville and Citizens. These utilities have been providing services in high cost areas in their respective service areas. Further, these five utilities have been collecting CHCF-B surcharge revenues from their end-users since the start of the program in February 1997. In addition, Cox Communications (COX) has been filing claims from the CHCF-B since December 1999.⁴ Other carriers are also expected to apply for COLR status and file claims with the CHCF-B in the future.

The Telecommunications Division (TD) staff anticipates the review and approval of carryover claims in FY 2001 - 02.⁵ The actual payments of any carryover claims are dependent upon the Commission's approval of carriers' plans for flowing these amounts to ratepayers via surcredits over three months.⁶ To date, the Commission has approved the implementation of the flow through of the catch-up surcredits for three carriers.^{7 8} The TD staff anticipates the filings of such plans via Advice Letters by the remaining two carriers, Commission approval of these Advice Letters, and payments being made in FY 2001 - 02.

2. P.U. Code Sections 270, et al.

⁴ COX became a Carrier of Last Resort (COLR) effective December 8, 1999.

⁵ The approval depends upon carriers supporting their "final" claims with supporting documents and workpapers as required by TD staff for verification of such claims.

⁶ Decision 98-09-039 requires the filing of an Advice Letter by each carrier that must be approved by the Commission through a resolution process. Prior to the filing of the Advice Letter by each carrier, the TD Director will notify each carrier that claims have been approved for the catch-up surcredit time period and an advice letter should be filed for the catch-up surcredit. For Pacific, the catch-up surcredit will be based upon approved claims for the period of February 1997 through May 1998. For the other four utilities, the catch-up surcredits will be based upon the approved claims for the period of February 1997 through August 1998.

⁷ By Resolution T-16532, dated June 14, 2001, the Commission authorized Citizens Telecommunications Company of California, Inc. to implement a temporary CHCF-B catch-up surcredit in compliance with D. 98-09-039.

⁸ By Resolution T-16531, dated June 14, 2001, the Commission authorized Verizon California, Inc (originally GTE California and GTE Contel of California) to implement a temporary CHCF-B catch-up surcredit in compliance with D. 98-09-039.

The California Legislature passed SB 669 and the Governor signed SB 669 in October 1999. The provisions of SB 669, as amended by SB 742 in 2001, are codified as Chapter 1.5 (beginning with Section 270) to Part I, Division 1 of the PU Code. PU Code Section 270 provides for the creation of the CHCF-B Administrative Committee Fund and five other funds in the State Treasury. The following are the major requirements of SB 669, as amended by SB 742, which have been included in the PU Code:

- a) Section 276(a) provides for the creation of the CHCF-B Administrative Committee (an advisory board) to develop, to implement, and to administer the CHCF-B program.
- b) Section 276 (b) provides that all revenues collected by the telecommunications carriers authorized by the Commission to fund the CHCF-B program shall be submitted to the Commission on a schedule established by the Commission. Beginning on October 1, 2001, and thereafter, the Commission shall transfer the money received and all unexpended revenues collected prior to October 1, 2001 to the Controller for deposit in the CHCF-B Administrative Committee Fund. All interest earned by moneys in the fund shall be deposited in the fund.
- c) Section 273(a) provides that the created CHCF-B advisory board submit an annual budget to the Commission, who shall act on the submitted budget within ninety calendar days after receipt of the CHCF-B budget.
- d) Section 274 provides for the financial and compliance audits of the CHCF-B program costs and activities at least once every three years, beginning July 1, 2002.

NOTICE/PROTESTS

The current CHCF-B Administrative Committee was not required to submit a revised fiscal year 2001-02 budget based upon the adopted California State FY 2001-02 Budget. Therefore, the TD staff revised the previously Commission adopted FY 2001-02 budget based upon the information from the California State Budget relating to the implementation of the provisions of SB 669. The resolution was mailed on September 12, 2001 to parties in accordance with PU Code Section 311(g).

DISCUSSION

In August 2001, the State Budget for FY 2001-02 was approved by the Governor and the included amounts for the CHCF-B program for the last nine months of FY 2001 –2002 to

implement the provisions of SB 669 on October 1, 2001.⁹ With the adoption of the California State Budget, TD staff revised the previously Commission adopted CHCF-B budget and surcharge rate for FY 2001-02.¹⁰ This revised budget resolution for FY 2001-02 takes into account the transfer of the CHCF-B fund to the State Treasury on October 1, 2001, the California State Budget approved program expenses for CHCF-B for the last nine months of FY 2001-02, such as the projected payments and administrative expenses including the costs required to implement the PU Code Sections 270, et al., the program fund balances as of August 1, 2001, and minimal fiscal year ending cash balances.

In this Resolution, the Commission adopts the following:

- The CHCF-B program budget for FY 2001-02 in the amount of \$972.872 million, including carry-over claims of \$411 million.
- The decrease in the surcharge rate to 1.47% from 2.6%% to take effect on November 1, 2001 and to remain in effect until further revised by the Commission.

This total CHCF-B program budget of \$972.872 million consists of the following components:

	<u>Amount</u> (\$ In Millions)
Current CHCF-B Carrier Claims	\$544.316
Carry-Over Claims	411.000
Loans to Deaf& Disabled Telecom Program	15.000
Administrative / Staff	0.163
Other Expenses	2.393
	=====
TOTAL	<u>\$ 972.872</u>

TD staff adjusted the previously Commission adopted FY 2001/02 budget for the administrative and staff expenses, and related PU Code Sections 270, et al. costs associated with the transfer of CHCF-B fund balance to the State Treasury on October 1, 2001.

⁹ In October 1999, PU Code § 270-281 were codified as a result of the enactment of Senate Bill 669 (Stats 199, Chapter 677). § 270(b) requires that the monies in the CHCF-B and five other programs may only be expended pursuant to § 270-281 and upon appropriation in the annual Budget Act.

¹⁰ Resolution T-16430 dated September 21, 2000, adopted the CHCF-B budget of \$482.767 million and surcharge rate of 2.6% for FY 2001-02. Resolution T-16430 did not consider carry-over claims as these estimated carry-over claims were approved in prior annual CHCF-B budgets.

The current CHCF-B claims are estimated to be \$544.316 million for FY 2001-02. In addition, the carry-over claims are estimated to be \$411 million. Further, pursuant to Resolution T-16565, dated August 2, 2001, and Assembly Bill 219, which added Public Utilities Code Section 270.1, a loan amount not to exceed \$15 million to the Deaf and Disabled Telecommunications Program was included for CHCF-B FY 2001-02 budget.

TD included \$163,000 for CHCF-B for the allocated portion of the internal staff in the Information and Management Services Division who would carry out work responsibilities associated with the implementation and on-going operations of P.U. Code Sections 270, et al. The estimated amount includes expenses associated with the addition of facilities for these staff members.

Of the \$2.393 million budgeted for FY 2002-03 for other expenses, \$1.0 million is for interest payments to carriers for current claims and \$1.150 million is for three different types of audits - \$10,000 for financial audit, \$600,000 for surcharge remittance audits, and \$540,000 for carrier claim audits. The remaining amount of \$243,000 is for advisory committee expenses and banking service expenses.

The CHCF-B surcharge rate of 1.47% will become effective November 1, 2001 and this surcharge rate is to remain in effect until further revised by the Commission. The adoption of an effective surcharge rate of 2.0% will generate \$303.620 million in surcharge remittance revenues. The surcharge remittance revenue is based upon a lower billing base of \$15,181 million from the previously adopted billing base of \$19,414 million for FY 2001-02 in Resolution T-16430. Based on the sharp downturn of the telecommunications revenues subject to surcharges reported to the Commission by telecommunications carriers in recent months and the growing concerns about the health of the national economy, the estimated telecommunications revenues subject to surcharges are revised to \$15,181 million for FY 2001-2002. The revised forecast for FY 01-02 is based on the average reported telecommunications revenues subject to surcharges in recent months, annualized compounded by a reduction of \$411 million. This \$411 million adjustment reflects the anticipated amount of "catch-up" surcredits that will be implemented by Pacific Bell and Roseville Telephone Company during FY 01-02 pursuant to D.98-11-039. Finally, the estimated fund balance is \$335.157 million on June 30, 2002 based upon the actual fund balance on July 1, 2001 and projected revenues and expenses for FY 2001-02. TD intends to maintain the surcharge rate at 1.47% through fiscal year 2002-03.

NOTICE TO OTHER CARRIERS AND ADVICE LETTER FILING

In Resolution T-15558 (dated June 8, 1994) we waived the notice requirements of General Order 96-A, Section III, G.1, to furnish competing utilities either public or private copies of related tariff sheets. We did so because it did not appear to be in the public's interest for each utility to send and receive over two hundred notices advising

them of regulatory changes about which they already know. Since that time, nothing has happened to change our opinion, so we will waive this notice requirement for tariff changes, which comply with this resolution.

The TD oversees the administration of eight public programs. The surcharge rates of one or more of these programs will be revised on November 1, 2001 and will remain effective until further revised again by the Commission. For administrative efficiency, we will allow all telecommunications utilities that are subject to the surcharges for these various programs to file concurrently revised tariff schedules in compliance with resolutions and decisions revising these surcharges in accordance with the provisions of G.O. 96 on or before October 22, 2001. These advice letters shall become effective on November 1, 2001 and will remain effective until revised again by the Commission.

COMMENTS

In compliance with PU Code § 311 (g), the draft of this Resolution was mailed on September 13, 2001 to the parties on the service list of I.95-01-20/021. A copy of the cover letter of this mailing was also sent to each of the Commission certificated telecommunications carriers informing parties that this draft resolution is available at the Commission's website

www.cpuc.ca.gov/static/industry/telco/resolutions/index.htm and is available for public comments. In addition, the Telecommunications Division (TD) informed these parties of the availability of the conformed resolution at the same website.

TD did not receive any comments on this resolution. In the absence of any comments or protests, this is an uncontested matter for which the Commission may reduce the period for comment or review. (Commission Rule of Practice and Procedure 77.7 (f)) Accordingly, the comment and the review period for this resolution are shortened from 30 to 27 days.

FINDINGS

1. In October 1999, Public Utilities (PU) Code § 270-281 were codified as a result of the enactment of Senate Bill 669, as amended by Senate Bill 742.
2. PU Code § 270(b) requires that the monies in California High Cost Fund-B Administrative Committee Fund may only be disbursed pursuant to § 270-281 and upon appropriation in the annual Budget Act.
3. In August 2001, Telecommunications Division (TD) was informed of the approval of the State Budget and the amounts included for fiscal year (FY) 2001-02 to

implement on October 1, 2001 the requirements of PU Code Section 270, et al for CHCF-B.

4. The CHCF-B total budget of \$972.872 million for FY 2001-02 is reasonable and should be adopted.
5. Of the total adopted amount of \$972.872 million for FY 2001-02, \$544.316 million is for current CHCF-B claims filed by carriers, and \$411 million is for carry-over claims.
6. The CHCF-B surcharge rate should be 1.47% and should be in effect on November 1, 2001 and remain in effect until further revised by the Commission.
7. The adoption of a surcharge rate of 1.47% will result in funding the CHCF-B total expenses of \$972.872 million for FY 2001-02, and will leave an estimated fund balance of \$33.157 million on June 30, 2002.
8. The draft of this resolution was mailed to the parties of record in I.95-01-020/021 on September 13, 2001. A copy of the cover letter of that mailing was also sent to each of the Commission certificated telecommunications carriers advising them of the availability of this draft resolution and the conformed resolution, when adopted by the Commission, on the Commission's web site.
9. For administrative efficiency, it is reasonable to allow all telecommunications utilities that are subject to the various public program surcharges to file concurrently revised tariff schedules in compliance with the resolutions and decisions revising these surcharges in accordance with the provisions of G.O. 96-A on or before October 22, 2001. Such filings will become effective November 1, 2001 and remain in effect unless further revised by the Commission.
10. Since nothing has happened since the time the Commission waived the notice requirements of General Order 96-A, Section III, G.1 (Resolution T-15558 dated June 8, 1994), the notice requirement for tariff changes complying with this resolution will continue to be waived.

THEREFORE, IT IS ORDERED that:

1. The budget for the California High Cost Fund-B (CHCF-B) Administrative Committee Fund for fiscal year (FY) 2001-02 of \$972.872 million, as set forth in Appendix A of this resolution, is adopted.

October 10, 2001

2. A revised surcharge level of 1.47% for the CHCF-B program shall take effect on November 1, 2001 and remain in effect until revised by the Commission. All certificated telecommunications carriers in California shall apply this surcharge rate on their end-users' bills rendered on or after November 1, 2001. All certificated telecommunications carriers required to file tariffs with the Commission shall file advice letters by October 22, 2001 revising the CHCF-B surcharge consistent with this Resolution.
3. All telecommunications carriers who are required to collect the surcharges for the various public programs may concurrently file revised tariff schedules in compliance with the resolutions or decisions revising these surcharges by advice letters in accordance with the provisions of General Order 96 on or before October 22, 2001. The advice letter shall become effective November 1, 2001 and remain in effect until further revised by the Commission.
4. All Local Exchange Companies (LECs) and Interexchange Companies (IECs) are granted an exemption from the noticing requirement of General Order 96, for surcharge changes resulting from this resolution only.

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on October 10, 2001. The following Commissioners approved it:

/s/ WESLEY M. FRANKLIN

WESLEY M. FRANKLIN
Executive Director

LORETTA M. LYNCH
President
HENRY M. DUQUE
RICHARD A. BILAS
CARL W. WOOD
GEOFFREY F. BROWN
Commissioners

APPENDIX A

CALIFORNIA HIGH COST FUND-B ADMINISTRATIVE COMMITTEE FUND				
PROGRAM BUDGET FOR FISCAL YEAR 2001 - 02				
	A	B	C	
	FY 2001-02			
	ADOPTED	REVISED		
	(Res T-16430)	COMMISSION	ADOPTED	NOTE
	(Res T-16430)	(Res T-16585)		
	(Dollars in Thousands)			
1 BEGINNING FUND BALANCE	156,314	1,001,549		
REVENUES				
2 PROJECTED ANNUAL BILLING BASE	19,414,000	15,181,000		
3 SURCHARGE RATE	2.800%	2.000%		1
4 SURCHARGE REVENUE (L2 X L3)/12	504,764	303,620		
OTHER INCOME				
5 INVESTMENT INCOME	8,580	2,860		2
6 INTEREST / LOAN REPAYMENT	-	-		9
7 PENALTY	-	-		
8 TOTAL OTHER INCOME (L5 THROUGH L8)	8,580	2,860		
9 TOTAL REVENUE (L5 THROUGH L8)	513,344	306,480		
PROGRAM EXPENSES				
10a CLAIM PAYMENTS	450,000	544,316		3,4,5
10b CARRY-OVER CLAIMS	-	411,000		
11 LOAN TO DDTP	-	15,000		8
12 INTEREST PAYMENT	1,000	1,000		6
13 OFFSET IN REDUCTION OF FEDERAL SUPPORT	30,000	-		
14 TOTAL PAYMENTS (L10 THROUGH L13)	481,000	971,316		
AUDITS				
15 FINANCIAL AUDIT	100	10		
16 COMPLIANCE AUDIT	-	-		
17 REMITTANCE AUDIT	600	600		
18 CARRIER CLAIMS AUDIT	450	540		
19 TOTAL AUDITS (L15 THROUGH L18)	1,150	1,150		
BANKING FEES				
20 TRUST	300	222		
21 LOCKBOX	-	14		
22 TOTAL BANKING FEES (L20 + L21)	300	236		
COMMITTEE EXPENSES				
23 PER DIEM	-	3		
24 TRAVEL & OTHER EXPENSES	-	4		
25 TOTAL COMMITTEE EXPENSES (L23+L24)	-	7		
26 TOTAL PROGRAM EXPENSES (L14+L19+L22+L25)	482,450	972,709		
ADMIN/STAFF				
27 EXTERNAL STAFF & RELATED EXPENSES	-	-		
28 ALL OTHER EXTERNAL OPERATING EXPENSES	-	-		
29 SB 669 INTERNAL STAFF	317	163		7
30 TOTAL ADMIN/STAFF (L26 THROUGH L28)	317	163		
31 INTERAGENCY COST	-	-		
32 TOTAL EXPENSES (L26+L30+L31)	482,767	972,872		
33 PROJECTED ENDING BALANCE (L1+L9-L32)	186,891	335,157		
Notes				
1	Surcharge rates are as follows:			
a.	Surcharge rate for July 1, 2001 billings through October 31, 2001 billings is 2.6% (surcharge remittance is 40 days later)			
b.	Surcharge rate for November 1, 2001 billings through June 30, 2003 billings is 1.47% (surcharge remittance is 40 days later)			
c.	Weighted surcharge rate for FY 2001-02 for 12 month period is 2.0%			
2	No investment income is assumed after October 1, 2001 since all funds will be transferred to the State Treasury.			
3	Includes \$11.5 million payment pursuant to Decision (D.) 00-11-033, Ordering Paragraph # 2			
4	Includes estimated claim payments to Pacific Bell, Verizon of California, Citizens Telecommunications Company of California and COX Communications.			
5	Cash flow projections assume carriers filing timely claims with appropriate supporting documents and workpapers.			
6	D. 98-01-023 ordered that interest be paid to carriers whose claims are not processed within the prescribed time.			
7	Portion of the amount includes Bldg. Addition for MSD staff allocated to this program.			
8	Loan of \$15 million to the DDTP in September 2001			
9	Loan to DDTP is assumed to be paid back to the CHCF-B on July 1, 2002 pursuant to SB 742, Section 276(b)			